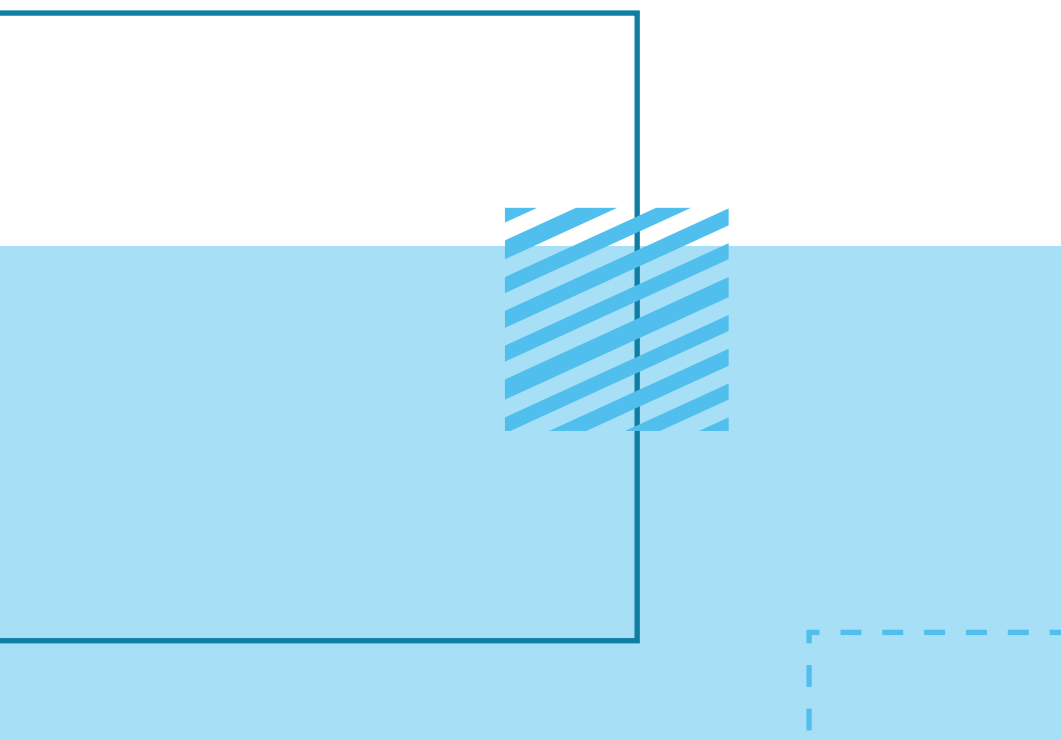


Secrets to Sustainable Growth - for MSPs, by MSPs



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Introduction

The managed IT services business has been alive and kicking for the better part of two decades, and its future is bright, with global growth expected to increase from \$180.5 billion in 2018 to \$282 billion by 2023, according to forecasts from MarketsandMarkets. Yet managed service providers (MSPs) continue to find it a challenging business to grow, optimize and sustain —or exit— profitably.

That's why Channel Futures - with the backing of MSP-enablement platform provider ConnectWise, set out to offer critical guidance to MSPs on how to run their businesses better and smarter, growing their revenues and profit margins across pivotal maturity stages.



This eBook series is divided into three chapters:

1

Jumpstart Your Growth

Guidance for early-stage MSPs that are trying to acquire customers and grow revenue as quickly as possible to achieve scale.

2

Maximize Your Profitability

Guidance for mid-stage MSPs that have achieved scale and want to increase their margins by optimizing processes and cutting costs.

3

Protect Your Revenue

Guidance for more mature MSPs that are profitable and need to protect their revenue by retaining customers and growing wallet share.

Meet Our Expert MSP Executives

We interviewed managed services providers from around the globe, with track records of success, as well as ConnectWise's managed services experts. Together, these leaders, profiled on page 44, represent MSPs across a range of sizes, geographies and maturity stages, and they share advice about what to do - and, sometimes, what not to do - to more quickly scale your early-stage managed services business. We thank them for their candor in sharing their leadership lessons and inspiring growth stories.



Whit Ehrich
CEO – Hill Country Tech Guys



Francis West
CEO – WESTTEK Solutions Ltd.



James Ratcliff
Managing Director – Ratcliff IT



Tim Lasonde
Senior Vice President,
Managed Services – Focus
Technology Solutions



Josh Weiss
Founder and CIO –
L.A. Creative Technologies

Jumpstart Your Growth

In the Beginning

New MSPs typically begin their journeys in one of two ways

1) TRANSITION: After running a break-fix shop with a team of technicians and navigating unstable cash flow, the founder is on a mission to secure the monthly recurring revenue (MRR) contracts that are the hallmark of the MSP business model in order to smooth the unpredictability of hardware sales revenue streams.

“NSK —now Focus Technology Solutions— was in business before fixedfee- per-head even existed. It wasn’t bottled yet. We were essentially a [time and materials]-based provider. We were roughly 10 people, and a lot of what we did was onsite support. But a lot of it was reactionary. We were basically like plumbers.”

- Tim Lasonde, Senior Vice President, Managed Services, Focus Technology Solutions

2) STARTUP: An entrepreneur who’s invariably technically astute —and probably worked at a lagging break-fix shop— goes out alone to “do IT better.” The entrepreneur might have a partner, a tech or admin, but they’re hands-on with every aspect of the business - from product management to sales and marketing to help desk. It’s their baby.

“I should’ve known better at the time, but I was pretty successful [as an IT guy]. But it all came down to me, and I knew that I needed to build something bigger than that - that was resilient to provide for me and my family. If you want to earn more money, you’ve got to work more hours, and that’s incongruent with a family and healthy lifestyle.”

- James Ratcliff, Managing Director, Ratcliff IT

Sound familiar? Your origin story may vary in the details, but the challenges that your MSP business faces at this early stage are common. They all can be boiled down to one overriding goal: scaling faster.

Growing Pains

The secret to scaling seems simple: sell to more customers. But on closer examination, scaling quickly and successfully grows complex. There are built-in capacity issues with either your sales or support organization - sometimes both.

SALES: If you've got only one salesperson —often the owner, who's splitting time between sales and tech support, you need to look at adding another to fill your pipeline. But without more customers i.e., revenue, it's a challenge to make that personnel investment, particularly with no guarantee of success.

"For the first year and a half, it was just me. I hired one employee and we were still doing everything off spreadsheets and QuickBooks invoices. We didn't have any tools as we slowly stood up [the business]. My first break came when I sold a hospital, and it doubled my revenue and allowed me to rapidly reinvest in my business."

- Whit Ehrich, CEO, Hill Country Tech Guys

SUPPORT: Similarly, you'll need to hire more techs to increase capacity to serve more customers. But again, you need more customers i.e., revenue to afford to hire more techs. If you forge ahead, you also risk providing substandard service and losing customers as fast as you're adding them a.k.a. the "leaky bucket syndrome".

"To me, it's about making the investment [even if it initially slows revenue growth] so that when we add new clients, it's going to work and we're not going to do what some of my friends do - which is get a great new client and then lose it three months later because they can't hold it together."

- Josh Weiss, Founder and CIO, L.A. Creative Technologies

Either way, it's a vicious circle - but one that savvy MSPs have solved through automation and outsourcing.

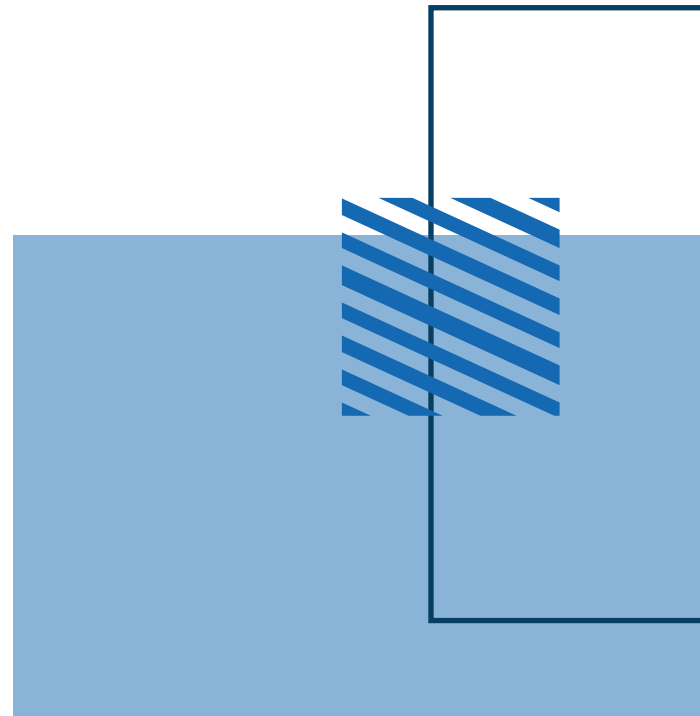
Foundational Tools and Automation

The foundational tools of the MSP world typically fall into two buckets. The first is Remote Monitoring and Management (RMM) - i.e., software designed to help MSPs remotely and proactively monitor client endpoints, networks and computers.

Through RMM, technicians can remotely install software and updates, administer patches, etc. for many endpoints at once. Not all RMM solutions are created equal, however: ConnectWise Command™, for example, liberates technicians from the need to learn a new programming language or upskill, empowering MSPs to deploy staffers more effectively, accelerate resolution times and elevate their overall customer experience.

Then there's the other bucket, Professional Services Automation (PSA), a software application suite that manages core business processes such as project management, resource management and time and expense management. PSA also may include customer relationship management (CRM) tools for tracking sales opportunities and ticketing for help desk/ service desk management.

Often RMM and PSA tools are integrated. While these tools can be implemented simultaneously, PSA tools typically are added later, when profitability becomes a priority. RMM tends to be the go-to option for earlystage MSPs who are focused on doing more with less.



NOC Benefits



Detect issues before they become major problems



Boost margins by proactively avoiding problems



Monitor and manage client IT systems remotely



Reduce surprises and service disruptions



Decrease client site visits as well as associated time and cost



Administer tasks to multiple endpoints simultaneously



Improve customer satisfaction and retention with greater uptime



Reallocate techs to higher-revenue projects

[Using RMM] was a good strategy, and it worked really well. We were able to keep the same staff and grow our business.

- Tim Lasonde, Focus Technology Solutions

Tim Lasonde was one of the early adopters of RMM as founder of NSK Inc., which merged with Focus Technology Solutions in 2017. Ten years into NSK's run, Lasonde implemented an RMM from Zenith InfoTech as a way to grow revenue without charging customers more.

Francis West, CEO of WESTTEK, cautions that RMM is simply a tool, and implementing it correctly is key. He speaks from experience, having invested in an RMM tool in an effort to scale his first MSP business, only to fail in execution and run out of money. Intent on not repeating the same mistake, West partnered up with Graeme Ison to form WESTTEK, with RMM done right using Continuum Command.

“Our priority has always been automation. We do so because it saves time and creates consistency. Without it, you’re chasing your tail.”

- Francis West, CEO, WESTTEK

A growing number of savvy MSPs are turning to automation —i.e., using tech tools to tackle work traditionally performed by humans— to more efficiently address RMM and PSA demands. But even less-techie MSP staffers can leverage easy-to-use tools from ConnectWise, a ConnectWise company, to automate many day-to-day tasks, maximizing their impact on overall growth.

In order to properly leverage automation and meet your objectives, you need a tech stack that aligns with your team’s skill set. For many MSPs, that means embracing accessible automation, a growing trend that provides the flexibility to reorganize a team or hiring strategy without being confined to an overcomplicated tool or one with unique programming language.

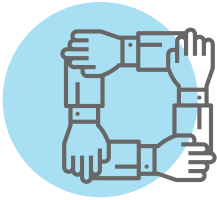
Outsourcing

Outsourcing is a twin strategy of automation; that’s why experts recommend MSPs implement them in tandem. In general, business outsourcing includes a range of activities, from accounting to sales and marketing, that typically fall outside an MSP’s core competency. However, for early-stage MSPs, there’s a counterintuitive but compelling business case to be made for outsourcing technical services including:

- **Network Operations Center (NOC):** A facility where system admins supervise, monitor and maintain IT networks and systems.
- **Help Desk:** A place IT users contact IT experts to resolve problems.
- **Security Operations Center (SOC):** A site where information security pros monitor, analyze and protect against cyberattacks.

Outsourcing to white-label NOC, SOC or help desk services such as ConnectWise Assist™ makes increasing business sense for MSPs who face rising costs to recruit, train and retain skilled IT talent - individuals who are in high demand and short supply. At the early stage, MSPs tend to begin outsourcing to a third-party NOC. In later stages, MSPs often double down on this strategy to maximize profitability.

RMM Benefits



Instant access to a team of certified techs for day-to-day tasks



Extend support hours to 24/7 availability without adding staff or shifts



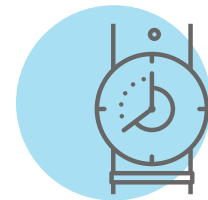
Avoid or delay pricey local tech hires while tapping hard-to-find skill sets



Retain in-house techs who don't want to work weekends



Reallocate in-house engineers to higher revenue projects



Improve incident response rates with round-the-clock support



Invest savings into business development roles or activities



Add staff to support clients without damaging gross margins

ConnectWise, enabled WESSTEK to ramp up a 24/7 IT management and support organization with the founders as its sole employees. West said that between ConnectWise's RMM and NOC combined, the

MSP saved a minimum of £100,000 annually —at the time, roughly \$150,000 U.S.— in personnel costs in its formative years.

Controlling labor costs aren't the only boon of outsourcing; it also adds expertise and services that can help you sell more. The ability to advertise 24/7 NOC and help desk support was key to selecting the ConnectWise Platform for Josh Weiss, CEO of the fast-growing MSP L.A. Creative Technologies.

"I chose ConnectWise because they have people built into the model. I could sell 24/7 help desk running the company by myself. At that time, with 30-50 clients, I needed to have someone to help answer the phone."

- Josh Weiss, Founder and CIO, L.A. Creative Technologies

Doing More with Less

Ultimately, automation and outsourcing give you elasticity such that your growth is no longer constrained by the size of your staff, but only by how well you sell. Indeed, trying to keep pace with mounting client work by adding full-time staff members puts continual pressure on margins. What's more, if revenue growth fails to materialize and you're unable to offset the cost of a new hire, reductions in gross margin persist. In contrast, automation and outsourcing enable you to add costs in proportion to revenue growth, which preserves your margin and reduces risk.

Automation and outsourcing also dramatically change the posture of the business from being reactive to being proactive, which leads to greater efficiencies and cost savings. They can potentially collapse the timeframe spent in the early growth stage, allowing

you to explore best practices of process-based optimization characteristic of MSPs that have grown and scaled, and are now focusing on maximizing profitability.

Pairing ConnectWise's RMM and NOC created efficiencies that enabled Ratcliff IT to elevate its service levels from the get-go by freeing up time for more consultative engagements.

"[With RMM and NOC] we could be there to build relationships with the client. We had the time with very few staff to deal with things that mattered to them. We could be more consultative, we could be more present. We literally had more time available to talk to or see them."

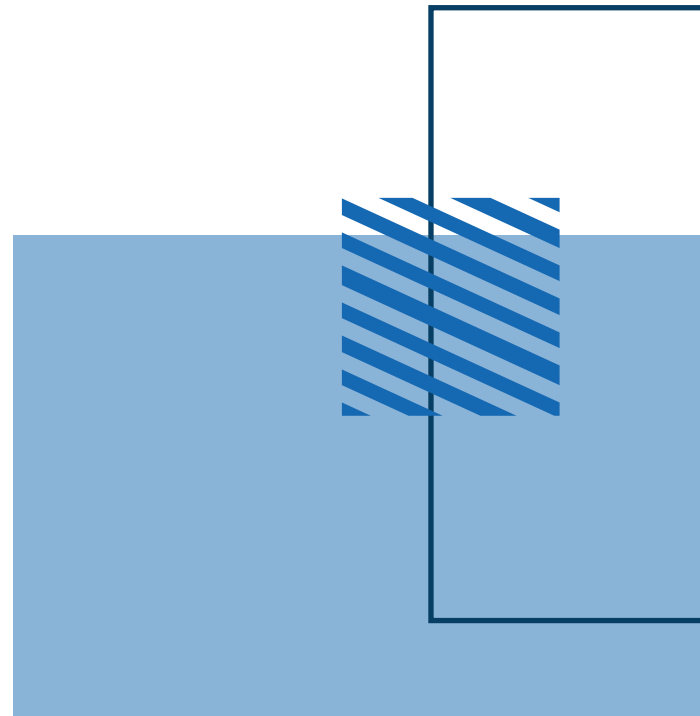
- James Ratcliff, founder and managing partner, Ratcliff IT

Automation and outsourcing allow you to shift focus to enabling clients to leverage technology in more impactful ways, which in turn can lead to project work, higher retention and new referrals that fuel growth in later stages.

Best-in-class MSPs start thinking about how to run their businesses —instead of their businesses running them— by studying and implementing best practices early on that can scale as they grow and provide a strong foundation for success at later stages.

“I’m really into hammering things down. I just hired a dedicated tech and a virtual assistant - doubling my employee base - and then I’m going through [processes] like crazy and building indexes and building documentation. I’m trying to be a very mature small business.”

- Josh Weiss, Founder and CIO, L.A. Creative Technologies



Maximize Your Profitability

Getting to the Next Level

After laying the groundwork for a scalable business, midstage MSPs begin to experience greater financial success and, at last, stop sweating making payroll each month. But the smart ones are not focused in their business, they are focused on their business - more specifically, on improving their margins to maximize profitability and, in some cases, reinvesting in the company.

Before we share strategies, let's talk about measuring profitability. Companies that sell hardware typically measure gross margin, but the Technology Services Industry Association (TSIA) recommends that servicebased businesses like MSPs instead measure net margin. "Operating income, or net margin, is the most accurate indicator of profitability for a managed service provider... and is a strong indicator of a company's profitability compared to their peers and the industry overall," TSIA notes in its report [The State of Managed Services and XaaS 2019](#).

However they calculate them, MSPs have a few basic levers to pull to boost margins:

CUT COSTS: While there are many areas where MSPs can trim expenses, few are as impactful as reducing—or at least not increasing— headcount as client revenue grows. The total costs of recruiting and retaining staff - including training, salaries and benefits - are by far the largest line item in any MSP's general ledger.

"I pulled my first MSP up —probably the same size but with 18 staff— and ran out of money because I didn't manage the underlying issue properly in the business. ... My favorite saying is 'You need to use technology to fix technology, not people.' So I kept on throwing people at the problem, which meant I ran out of money."

- Francis West, CEO, WESTTEK



OPTIMIZE PROCESSES: Disorganization is a silent margin killer. It's not a line item on the general ledger, but it has a big impact nonetheless. MSPs can counter its effects by instituting - and more importantly, documenting - repeatable processes that can be automated —with RMM or PSA solutions, as explained below— or mandated as best practices, so expensive staff time is used cost-efficiently. A bonus here is an improved customer experience.

“My transformation from the first phase to the second phase [of business maturity] happened when I found Labtech’s [RMM] and ConnectWise’s PSA [tools]. Once I got to four or five employees, I realized I was just losing money left and right. I had chaos - utter chaos. So I was looking for ways to stop the chaos. . . . I learned [the PSA tool] would help with invoicing and ticketing. We didn’t have a ticketing system - we had emails that we all passed around.”

- Whit Ehrich, CEO, Hill Country Tech Guys

SELL HIGHER-VALUE SERVICES: Just as cutting costs improves the bottom line, adding revenue boosts the top line. Savvy MSPs are able to retask onstaff experts from reactive activities to proactive project work, increasing revenue and elevating the MSP to trusted adviser status - as well as an ongoing, more lucrative consultative role with its clients.

“[At the midstage], I’m building my help desk and I’m using the automation tools. I’ve changed my model to unlimited support all-inclusive, and am trying to get strategic and drive project work. And that’s helping us grow, because that’s a very profitable component of being an MSP.”

- Tim Lasonde, Senior Vice President, Managed Services, Focus Technology Solutions

This advice may sound like Business 101 for any MSP, but knowing where you need to go and knowing how to get there are often two separate things. A good starting place is normalizing everything possible.

Some excellent tips from the MSPs we interviewed include:

STANDARDIZE THE STACK: Businesses often don't have the infrastructure and applications they need, but even if they do, their IT environments are unlikely to match those of your other clients. This means you're managing a range of systems and vendors, which is inherently inefficient. Best-in-class MSPs require clients to use recommended hardware and software to create consistency, ensure high service delivery levels, boost product sales and improve margins.

"We're standardizing our customers' environments for a couple of different reasons. One is that if everybody's using the same devices and you're using the same vendors, you have more buying power and you're going to get more margin. Two, it becomes easier to provide the support if every environment that you're supporting looks the same, so you can support those environments with less people."

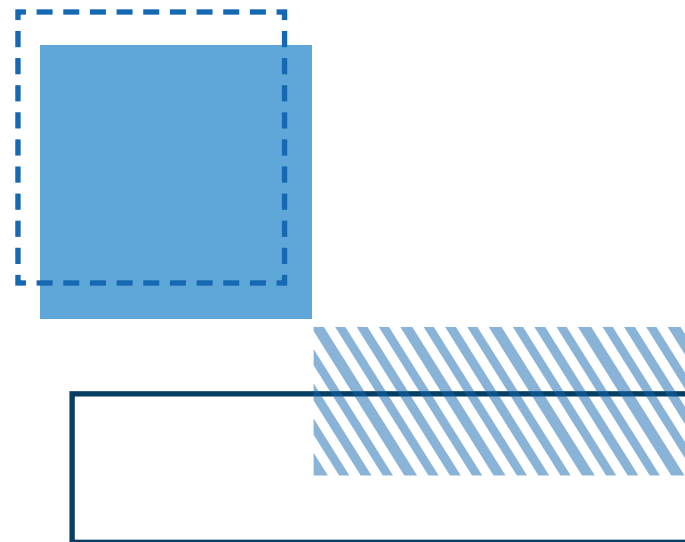
- Tim Lasonde, Senior Vice President, Managed Services, Focus Technology Solutions

MOVE TO AN ALL-INCLUSIVE PRICING MODEL:

Pricing models for MSP services have evolved over the years from a la carte to tiered to per-device or per-user. The latest evolution to gain popularity is a value-based, flat-fee model. In this model, costs for individual services are not disclosed, but instead billed as a single service, offering the MSP an opportunity for improved margins.

"[Migrating to all-inclusive plans] was a major growth driver for us, because it was easy for the customer to consume, it was relatively easy to sell, and nobody had to count things anymore."

- Tim Lasonde, Senior Vice President, Managed Services, Focus Technology Solutions



SEEK PROFESSIONAL GUIDANCE AND TRAINING:

Creating a good operating system for your MSP can involve a lot of trial and error, which can waste a lot of time and money. Fast-track your success by skipping over known pitfalls and embracing best practices that are available from a number of MSP consulting firms and ConnectWise Enable, an online training source on technical, sales and marketing skills.

“We started with [an MSP training and solutions provider] about a year and a half ago. [It] just helps us with the process of getting our numbers nailed down and standardized. We wanted to improve and to see what we can streamline. We already knew we had a good model, but we wanted to make it better.”

- Francis West, CEO, WESTTEK

JOIN PEER GROUPS: Leading an MSP can be isolating; you don't know if you're getting it right, wrong or somewhere in between. An MSP peer group provides community, education, benchmarking and, most importantly, the accountability you need to lead your business to the next level.

“Being part of a community is a competitive advantage. ... You can't do more yourself. You have to be able to delegate effectively. And that isn't something you're necessarily born with - either delegation skills or leadership skills. So learning [from your peer groups] how to have really clear communication, defined responsibilities and engage with people is the game changer in bringing on revenue and then profitability.”

- James Ratcliff, Managing Director, Ratcliff IT

From here, the route to systemization is made smoother by advancing strategies begun in the startup phase: automation and outsourcing.

Automation

As discussed in Chapter 1, the foundational tools for MSPs include:

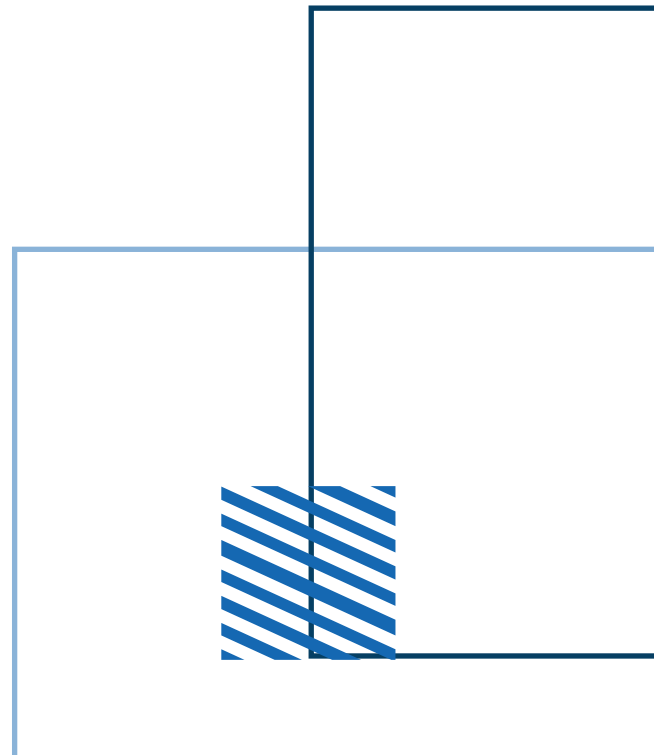
- **Remote Monitoring and Management (RMM)** - i.e., software designed to help MSPs remotely and proactively monitor client endpoints, networks and computers.
- **Professional Services Automation (PSA)**, a software application suite that manages core business processes such as project management, resource management and time and expense management. PSA software also may include customer relationship management — CRM— tools for tracking sales opportunities and ticketing for help desk/service desk management.

RMM tools are a must-have for best-in-class MSPs from day one; they accelerate growth at scale by automating menial tasks. But the right RMM software also can be advantageous in driving profitability. ConnectWise Automate solution, ConnectWise Command, was built for accessibility, which means it's easy to run "out of the box" and doesn't require knowledge of a special programming language. That means quick onboarding and training, which cuts costs and speeds time to impact. It also means a majority of your staff can use the tool, so you don't need to hire a dedicated RMM specialist, allowing your technicians to focus on other billable activities. All of this boosts margins. PSA tools often are added as more clients sign on and the volume of customer interactions increases, challenging MSPs to manage activities manually.

PSA software offers CRM on steroids, providing a central repository for information about processes, clients, assets, inventory, billable time, contracts,

supplier agreements and more. In addition, a PSA solution connects to other critical systems like accounting and RMM applications - for example, ConnectWise Command. An RMM tool will identify problems and generate alerts that can be sent to the PSA system as tickets in one of two ways:

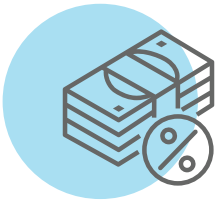
- Automatically, based on the predetermined type of alert
- Manually, by your RMM technicians via an integration to the PSA platform



A customer also can submit tickets directly to the PSA tool. In any case, the PSA system keeps track of all tickets that are opened and completed, the time

each one takes to resolve and billable time. No more laborious manual tracking of work orders for invoicing: the PSA tool tracks it for you.

Integrated with leading PSA platforms such as ConnectWise Manage™ and Autotask, ConnectWise Command enables MSPs to pull three critical levers toward greater profitability:



CUT COSTS

With RMM tools, you've already slashed the costs of hiring techs by automating routine tasks. And with ConnectWise's RMM tool, you don't need to hire highlevel techs to run the software. You also can offload inquiries to your manned help desk by automating tasks with RMM solutions —22 percent in the case of ConnectWise's RMM platform—. With the addition of an integrated PSA tool, you're now able to account and bill for the actual time and expenses spent on tasks and projects, and no longer guesstimate: for example, did you properly account for engineers, administrators, out-of-scope requests, hardware and other materials, etc.? This disciplined approach also works for right-sizing all-inclusive monthly contract charges to ensure profitability, as well as offering data-driven insight for capacity planning - i.e., identifying when you really need to spend money on a new hire or outsourced talent —see next section.



OPTIMIZE PROCESSES

It almost goes without saying, but RMM with PSA tools force your company to establish and adhere to processes that drive productivity and efficiency. Here are a few examples:

- Gleaning how much time staffers are logging, and on which services and for which clients. As a result, you can determine which staffers are most efficient and, perhaps, help their teammates follow suit.
- Pinpointing which services are most profitable and, perhaps, planning to sell more of them —or figuring out how to streamline those that currently are less profitable.
- Identifying which clients are most profitable and, more importantly, which ones are least profitable - and considering raising your rates or parting ways.



SELL HIGHER-VALUE SERVICES

Knowing your costs is the first step toward getting paid for the value you deliver to clients; chances are good that you're not charging enough. Be prepared for the cost data you mine from a PSA tool to indicate the need to raise your rates.

This could include re-evaluating your pricing model. The trend toward all-you-can-eat pricing is growing, but be sure to have clear scopes of work so you don't end up losing money if something goes awry. Project work is commonly outside the scope for most all-inclusive plans, according to Robin Robins' MSP Pricing Survey.

Additionally, the efficiencies you've gained from automation will enable you to reallocate manhours to higher-value project work - or a Virtual CIO service, which we'll discuss in Chapter 3 - and ensure that your bids and bills give you a healthy margin.

Ehrich said Hill Country Tech Guys' transformation from early-stage to midstage MSP happened when he paired an RMM platform with a PSA system to help with invoicing and ticketing.

"I got ConnectWise [PSA tool], and instantly I added \$1 million in revenue because I was just giving away so much work, so much product. It was just slipping through the cracks."

- Whit Ehrich, CEO, Hill Country Tech Guys

While Hill Country Tech Guys gained revenue, it also lost customers and employees as a direct result of the change to more methodical processes. "One of the things I've learned is that as you go through these phases, a lot of your employees won't fit in the new phase because they liked the way things were," Ehrich said. "Also, I lost some customers because all of a sudden I'm charging them for things and they were like 'Well, you never charged me before.' Well, yeah, that's because I didn't have processes. I didn't know I was wasting money on you." Ratcliff IT experienced a similar outcome as it sought to become more disciplined. "We went through a phase of getting rid of some of the clients that didn't fit with our vision - gently," Ratcliff said. "And we've got the right people in the right seats, which actually is a polite way of saying that some of the people that were here were the wrong people."

"We now have a team where our energy is focused on working towards a shared vision, as opposed to the tactical work of trying to get tickets done and the low-level stuff. So we've been through almost a rebirth - Ratcliff IT 2.0."

- James Ratcliff, Managing Director, Ratcliff IT

Outsourcing

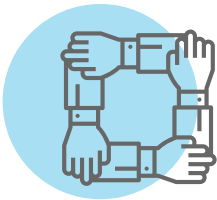
Savvy MSPs already are reaping the benefits of a fractional workforce —i.e., tapping talent without the high salaries or benefits— by outsourcing various tasks that require human intervention in key areas such as:

- **Network Operations Center (NOC):** A facility where system admins supervise, monitor and maintain IT networks and systems
- **Help Desk:** A place IT users contact IT experts to resolve problems
- **Security Operations Center (SOC):** A site where information security pros monitor, analyze and protect against cyberattacks

SOC services are ideal for layering in services. Midstage MSPs, however, are more likely to embrace NOC and help desk services. Many already have been using one or both of these services to help them scale more quickly.

Like NOC services described in Chapter 1, help desk services like ConnectWise Assist Help Desk offload day-to-day IT management activities, but instead of responding to input and alarms from systems, techs respond to inquiries and troubleshoot tickets from your clients' employees.

Help Desk Benefits



Instant access to a team of certified techs for day-to-day tasks



Extend support hours to 24/7 availability without adding staff or shifts



Avoid or delay hiring level-1 techs that typically man help desks



Retain in-house techs who don't want to work weekends



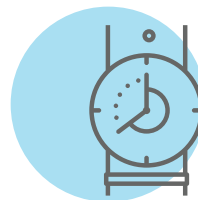
Add staff to support clients without damaging gross margins



Avoid overtime pay for techs working nights and weekends



Reallocate in-house engineers to higher revenue projects



Improve customer service with round-the-clock support

Unlike NOC services, which are performed in the background, the help desk is client-facing, so it's critical to choose a vendor that can represent your brand with integrity. ConnectWise's Help Desk, for example, is staffed by highly trained technicians with more than 24 distinct certifications, so they can field virtually any inquiry with a high degree of competence. In addition, the service is white-labeled,

so techs can answer questions as representatives of your MSP or your client's IT department, according to your wishes. Paired with ConnectWise's RMM platform, you can optimize your investment in help desk - whether outsourced or inhouse - by automating and offloading 22 percent of inquiries that typically end up at the help desk.

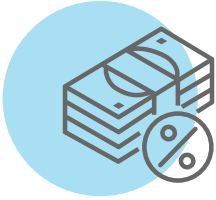
Josh Weiss, founder and CIO for L.A. Creative Technologies, uses ConnectWise's Help Desk to promote 24/7 coverage, and he's zeroed in on ways to leverage the outsourced help desk more effectively.

"[The secret to outsourcing] is knowing how to treat outsourcers like an extension of your team in very actionable, concrete ways, like learning how to delegate and collaborate with people, how to remember that they are humans, how to do team building even when you're not building that team internally."

- Josh Weiss, Founder and CIO, L.A. Creative Technologies

Outsourcing is an excellent strategy for routine tasks like systems admin and help desk, but it's also an affordable way to access pricey, higher-value expertise. In the same way that you might look to a lawyer for legal advice or an accountant for financial strategy, you can outsource project work or even dedicated technical resources through services such as ConnectWise Assist Tech Advantage and Dedicated Tech.

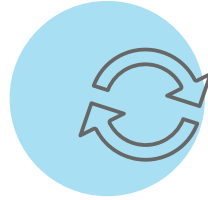
Each of these strategies maximizes profitability as follows:



CUT COSTS

By outsourcing routine and project-based work, you can grow your business without the significant costs of hiring and retaining additional experts. You even may be able to reduce staff, either proactively or by not replacing employees who leave on their own accord. Meanwhile, you can avoid overtime costs that are otherwise inherent in a 24/7 operation, and you can stop eating up the profits from lucrative project work by outsourcing instead of hiring in-house talent.

If you've laid the foundation for consistent and reliable service by leveraging automation and outsourcing, you soon become the trusted advisor. "If you're the trusted advisor to this customer, they're really not going to shop you or go anywhere else for their projects," said Focus Technology's Lasonde. "So if I tell you that you need to buy a new server, your server is out of warranty or it doesn't have enough disk space or this bad thing is going to happen to you if you don't do this work, the chances that you're not going to buy that from me are almost zero."



OPTIMIZE PROCESSES

Experienced outsourcers will follow wellhoned procedures to serve your clients. These best practices can inform your own operational procedures: by outsourcing to dedicated technicians, you can direct them to follow your processes as if they were part of your own staff. Outsourcing projects to experienced techs additionally can smooth disruptions in your operations caused by peaks and valleys in client migrations to new software versions or replacing end-of-life hardware, for example.

And to take advantage of that goodwill, you'll want to gear up with in-house or outsourced project teams to take advantage of fatter margins.

"Project work typically has better margins, because you can charge a premium."

- Tim Lasonde, Senior Vice President, Managed Services, Focus Technology Solutions



SELL HIGHER-VALUE SERVICES

Offering 24/7 services to your clients is quickly becoming table stakes for competing in the MSP space today. But it's an expensive proposition that outsourcing can help you manage more cost-effectively. Outsourcing routine tasks gives your inhouse techs much-needed bandwidth to focus on revenue-generating projects like adding or changing clients' infrastructure or applications, and you don't have to pass on lucrative projects if you also outsource some or all of your project work. It's a force multiplier.

Reinvesting in the Business

While software automation and staff outsourcing require an investment, the cost is significantly smaller than staffing for a manual, 24/7 operation. Moreover, the investment has a long tail, providing a critical foundation for revenue generation today and far into the future. It enables you to more quickly get to profitability, which in turn allows you to prioritize other types of investment in your business, such as sales or marketing, or new product lines.

"I got to a very good profitable level —about 15-20 percent—, and then I started spending some of that money on the business. . . . Having the right tools costs money, and having the right advisors costs money."

- Josh Weiss, Founder and CIO, L.A. Creative Technologies

Weiss says unlike early investments, which were intended to outsource his own workload, he's now trying to create more room for growth with a team that's stretched thin. "We're doing better than most [MSPs] and we're more organized than most companies, but we're kind of hitting that edge," he said. "My goal is to get this to the right spot [so we can sell the company]."



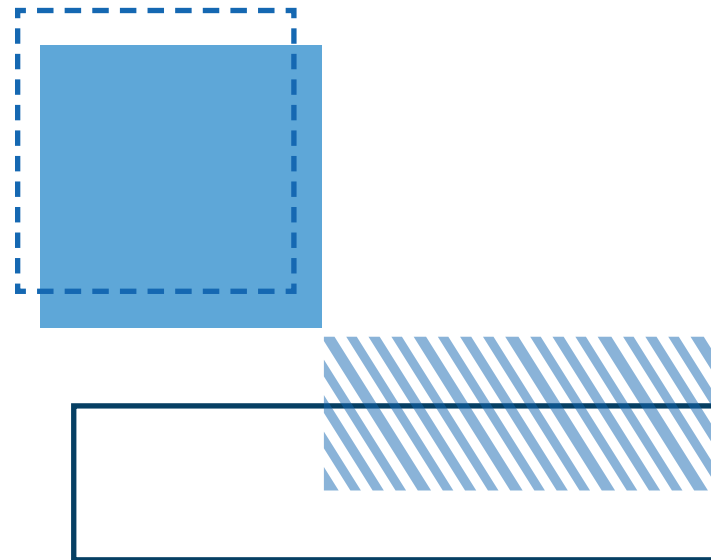
Protect Your Revenue

Reaching the Winners' Circle

Congratulations are in order for MSPs that have made it through the first and most challenging stages of growth: turning the chaos of startup into scale and pursuing order to maximize profit.

Mature MSPs can be proud of what they've built, the people they employ and the clients they serve. But they can't afford to rest on their laurels, as tempting as that might be. After all, ambitious competitors with lower rates and/or newer services are not only waiting in the wings, but actively targeting plum managed services accounts. Continued organic growth for mature MSPs, then, no longer only means adding clients; it also means defending and nurturing their bases. Anything less is only treading water.

Smart MSPs don't confuse motion with progress. Instead, they focus on programmatic changes that improve client renewals and upsells.



Each of these strategies maximizes profitability as follows:



IMPROVE CUSTOMER EXPERIENCE

Ironically, it seems the only way to improve the experience for a managed services customer is eliminating issues altogether - no trouble, no downtime, no breaches. While that is the goal, it has the unfortunate side effect of making the MSP invisible, which doesn't help at all when the client contract comes up for renewal. No one ever asks "What have you NOT done for me lately?" Operational excellence paired with regular reporting on the value of your services is vital to client retention.

"I'm a fanatic about keeping our customers happy. We're building our customer engagement strategy around having the right meetings with the right people at the right time, and we're always checking in on how clients are doing and being really personable. It's something that we're really good at. Clients like who we are and how we treat them. And even if they're mad about something, they appreciate that we have a lot of integrity."

- Josh Weiss, Founder and CIO, L.A. Creative Technologies



EXPAND WALLET SHARE

Attached sales are nothing new to IT solutions providers, but what do you do if you're an MSP that's already managing clients' IT environments? What more can you do? Aside from infrastructure projects, which you should be taking on as a matter of course, there are a slew of high-value managed services - not the least of which are backup and security - that you can add to your portfolio to sell into your client base, increase average MRR per customer and create stickier relationships.

"I'm using security to bring our lower-priced contracts up to a modern price point. I'm trying to have everyone at \$175 a head, or as close to it as possible. So that's been a nice way to go to some of our older clients and say, 'You're missing all this important [technology].'"

- Josh Weiss



BECOME A TRUSTED ADVISER

As much as this phrase is overused, it's a tried-and-true strategy. The bad news is that it doesn't happen overnight: it's a reputation that must be earned. The good news is that mature MSPs have a head start. By virtue of managing a client's entire IT environment, MSPs have valuable insight into a company's IT workloads and requirements, both historically and presently. With added insight into the client's business goals, they can do so much more - from providing strategic advice to vertical specialization to functioning as a virtual CIO.

"[We target] successful companies - relatively operationally mature people who want to form a partnership, who want an equal relationship with someone that they can trust, who are willing to take advice and someone to walk with them in all those areas... not just IT and support when it goes wrong, but strategy and how their business can get ahead of the curve, and how tech could be an advantage to them, not a hindrance."

- James Ratcliff, Managing Director, Ratcliff IT

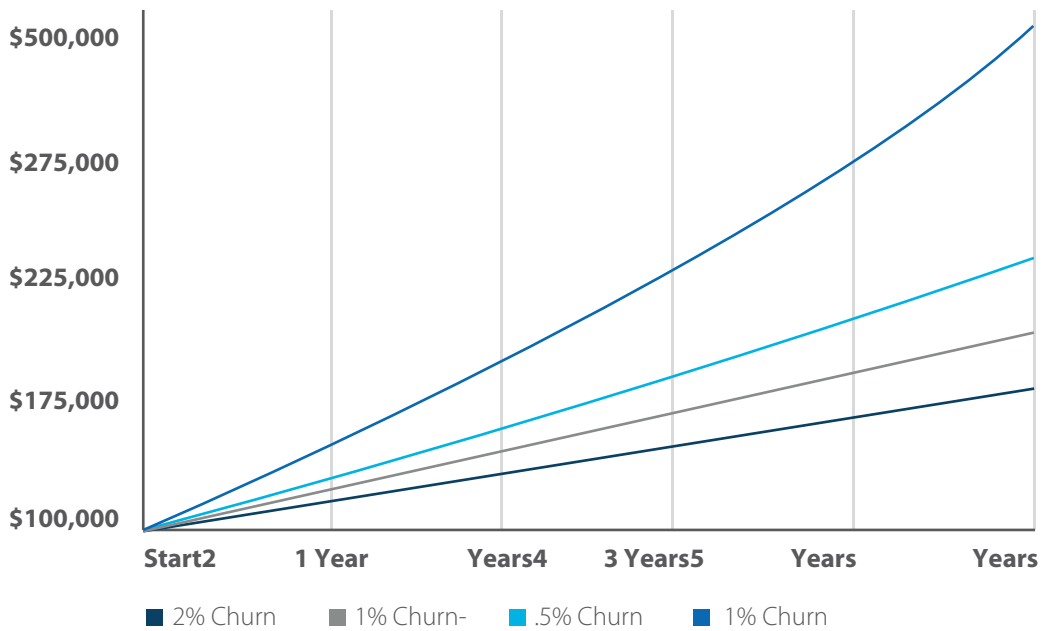
Let’s drill down on each of these strategies one by one:

Improve the Customer Experience:

Recent studies about MSP churn rates show a wide variance, with one indicating MSPs lose three clients for every four they win while another survey by the

MSP Alliance shows the opposite, with MSPs losing only one in 10. In the final analysis, the only thing that really matters is your won/retention rates and keeping them moving in a positive direction. [The chart below from BrightGauge®](#) illustrates how even a small reduction in churn can impact revenue growth.

The Impact of Customer Retention on Revenue Growth



Source: "The End All Guide to Client Reporting," BrightGauge

Fortunately, there are many things you can do to keep retention moving in an upward trajectory. Here are four strategies:

1. **Operational Excellence:** After all the operational optimization work that your team did in the midstage, your MSP has become a well-oiled machine. You've standardized processes and integrated foundational tools like ConnectWise Command RMM and ConnectWise Manage manage day-to-day management for client environments as well as your own ticketing and invoicing. In addition, you're adept at leveraging outsourced resources like ConnectWise Assist NOC and Help Desk as an extension of your team and your service hours, offering round-the-clock monitoring. Service alerts are resolved before customers are aware that anything is broken, and incident reports - fewer and further between - are cleared faster. There's also an opportunity to leverage new channels. Hill Country Tech Guys recently added the ability for customers to submit tickets via SMS. "Surprisingly enough, some of them love it," said Whit Ehrich.

"We got tired of customers not replying to emails. Some won't check their email but once a week, but they're on their cell phones every day."

- Whit Ehrich, CEO, Hill Country Tech Guys

2. **Specialized Employee Roles:** When you're a startup or small MSP, you're chief, cook and bottlewasher. It's nearly impossible to give each client the personal attention it deserves. As your organization matures, it's important to add key personnel in specific roles where they

can focus and excel, elevating your overall team performance and impacting the customer experience. Account managers or client success managers should be high on your list of key job roles. They liaise between your team and the client to ensure that customer needs are uncovered and met. Additionally, they have the strategic role of reporting on the value of the services that you deliver, as well as any additional capabilities that your clients could leverage. Hill Country Tech Guys has in recent years emphasized account management, hiring two long-term account managers dedicated to ensuring customers are happy and accounts are profitable. They've discovered that the most profitable accounts tend to be the most satisfied customers, too.

"I'd rather have 10 profitable accounts than 20 unprofitable ones, [because] those customers aren't happy. You know they're not; they're having lots of issues [for many reasons]. But the fact of the matter is the customer blames you. They're not happy, and they're not talking well about you. So if they're not profitable, they're only hurting your profit and your brand."

- Whit Ehrich, CEO, Hill Country Tech Guys

3. **Client Value Reporting:** Unless something goes wrong, your clients typically don't hear from you. That's a catch-22: If they see you a lot, then there's trouble, and if they don't see you, they forget about you —out of sight, out of mind—. To counter this, smart MSPs are delivering reports about the value they deliver on a regular basis, instead of once a year at renewal time.

These "client value reports" can include:

- Machine information
- Ticket information
- Disk utilization
- Patch and AV protection status
- Most installed applications
- Tickets opened by type
- Opened vs. closed tickets

You can even automate the creation and delivery of these reports through applications like BrightGauge, which integrates with tools like ConnectWise Command RMM and ConnectWise PSA. The experts at BrightGauge recommend personalizing the report for each client and ensuring that it gets to key stakeholders, including your contact, "the boss" and the person who signs the checks.

4. **Quarterly Business Reviews:** QBRs are an opportunity to engage with your client proactively instead of reactively —e.g., when you send an on-site tech to fix something—. True to their name, QBRs review "I'd rather have 10 profitable accounts than 20 unprofitable ones, [because] those customers aren't happy. You know they're not; they're having lots of issues [for many reasons]. But the fact of the matter is the customer

blames you. They're not happy, and they're not talking well about you. So if they're not profitable, they're only hurting your profit and your brand." - Whit Ehrich, CEO, Hill Country Tech Guys Secrets to Sustainable Growth - For MSPs, by MSPs 36 performance in the past quarter, but there's an opportunity to do a lot more. Here are five things that should be part of every QBR:

- Review your performance over the past quarter
- Demonstrate the value that you provide to the customer
- Establish goals for the next quarter —and beyond—
- Cross-sell and upsell based on information you glean about the customer's plans
- Ask for referrals to other companies that could benefit from your services

While QBRs are held quarterly, similar account reviews can be held on a schedule of your choosing. WESTTEK's West, has begun holding twice-yearly client meetings that his firm calls "Technical Alignments," wherein he and his top techs talk to clients about their business objectives and ensure that the technical infrastructure will support those goals. These meetings also present an opportunity for WESTTEK to educate customers on new technologies, such as security —which can result in upsells— or pending refreshes that might drive project work.

“A Technical Alignment is where you start adding value, and when you start looking at [technology roadmaps] and budgeting. Especially with our focus on security, I believe we’re adding so much more value.”

- Francis West, CEO, WESTTEK

Expand Wallet Share

Selling into your base is a known strategy for growing revenue. After all, your existing customers are familiar with your team and, hopefully, they’re happy with your managed service delivery. But this strategy also is a great way to protect revenue as well, since the more a customer buys from you, the less likely they are to leave. This is particularly true if you’re reliably delivering mission-critical services that would be disruptive to replace. Two that fit this category include:

- **Backup and Disaster Recovery (BDR):** Solutions that provide secure data backup and restoration in the event of a natural disaster, cyberattack, data corruption, system failure or user error
- **Security Operations Center (SOC):** Sites where information security pros monitor, analyze and protect against cyberattacks

Both BDR and SOC services require systems and expertise that your MSP may not have today, or that would take a lot of time and money to acquire. Outsourcing can be a cost-effective option for rolling out these services more quickly and professionally. Examples include ConnectWise Recover BDR and ConnectWise Fortify SOC service: they’re both managed by ConnectWise’s NOC, so they’re easy for

existing or new MSPs to add. Alone, each of these services is a smart addition, but together they offer your clients a greater level of availability and uptime. Plus, with ConnectWise’s platform, you can meet a variety of Response Time Objectives (RTOs) for your clients in a single solution.

Starting a security practice may seem challenging, but the right SOC-as-a-service provider should take on the bulk of the workload, including training you to sell and educate your customers. ConnectWise Fortify, for example, offers an assessment tool that generates a risk report for a client to validate the need for security services. A second ConnectWise tool scans the customer environment to identify gaps and provide information to develop a strong security strategy.

Ratcliff IT was an early adopter of ConnectWise Fortify. “The fact that we can have fantastic EDR [endpoint detection and response] software that’s enterprise grade, backed up with a SOC, is massive,” said Ratcliff.



“That really delivers huge value to our clients.” It’s also a huge value to Ratcliff IT; the MSP is now helping its clients deal with risk, rather than simply stating the status of the server or hard drive.

“Security has been the pivot point. It has been the game changer. It has been the leverage to take customers from their current provider who can’t have the security conversation to coming on with us.”

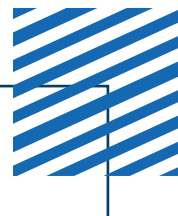
- James Ratcliff, Managing Director, Ratcliff IT

WESTTEK also is leveraging ConnectWise Fortify™ and ConnectWise Recover™ to build a new line of business. The U.K.-based MSP is using ConnectWise’s Dark Web Scans to help educate customers about their vulnerabilities, and they’ve tapped ConnectWise’s experts to conduct General Data Privacy Regulation GDPR audits, which has helped drive revenue and sales with clients old and new.

“Over the past year, we’ve been an IT support company doing security. These days, we’re becoming a security company doing IT. Most IT companies won’t have both, so I can approach new prospects with either offering and then follow with the rest. We couldn’t have made that evolution without the ConnectWise Security Operations Center.”

- Francis West, CEO, WESTTEK

Helping clients to minimize business interruptions and mitigate the risks of a business-impacting breach is the kind of work that can go a long way to building trust and expanding your business relationships.



Become a Trusted Adviser

Keeping your customers' IT systems up and running is important: it's every MSP's job as advertised. But what will differentiate your MSP is a focus on using technology to enable your clients' business goals and objectives. Try these strategies to elevate your value to your clients:

- 1. Be More Transparent:** Regular client reporting creates transparency, which is a good first step toward building trust. But there's more you can do to communicate that you want to be a trusted partner. BrightGauge recommends that during onboarding, you ask your clients:
 - What metrics are important to you?
 - How often do you want to receive reports, and what time/day?
 - What format - email text, PDF, spreadsheet - do you prefer?
- 2. Change the Conversation:** One way to get started is with QBRs, or other periodic consultations that improve the customer experience. Leverage these face-to-face meetings with clients to talk not only about the next tech refresh, but also about their plans to expand geographically, roll out new products, tap new markets or go to market in a different way, etc.

These conversations can help you uncover more project work, opportunities to layer on high-value products and services like BDR and a SOC and, more importantly, position you as a technology adviser. Trust will come in time when your recommendations have a positive impact on achieving their goals.

"Acquiring customers is incredibly difficult at the moment, which is another reason why we've moved toward security. We feel like we're adding massive value by helping people with security and protecting their data."

- Francis West, CEO, WESTTEK

- 3. Specialize in Verticals:** This advice is not new, but bears repeating because, if done successfully, vertical specialization can accelerate your quest to become a trusted adviser - at least among a targeted group. While specialization narrows your prospect field, it gives you instant credibility and moves you more quickly into your client's inner circle as an adviser, rather than a vendor. As your expertise deepens, your reputation broadens, with the happy byproduct being a referral pipeline. A recommendation from a trusted source is also a proven shortcut to trusted adviser status.

Two members of our expert MSP panel know this firsthand. Hill Country Tech Guys, for example, is a dba of Medical Computing Solutions, which ranks 284 on Channel Futures' 2019 MSP 501 list. The company grew to more than \$2.5 million primarily on referrals from doctor's offices and medical practices. The rebrand is enabling the firm to expand to serve a broader variety of customers, but its expertise in a highly regulated space is proving transferrable to new markets.

“We’re still 65 percent medical, but we have a lot of finance and a lot of manufacturing [clients]. We still have a very heavy medical focus, but we definitely have the tools to fit [verticals] with a high-compliance, highsecurity environment.”

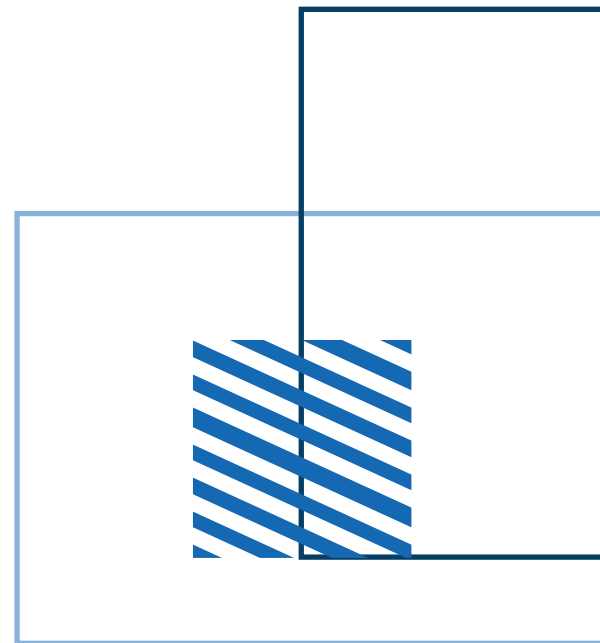
- Whit Ehrich, CEO, Hill Country Tech Guys

L.A. Creative Technologies, not surprisingly given its name, focuses on creative verticals in the arts and entertainment space, as well as architecture and nonprofits. This happened naturally for founder and CIO Weiss, who is a musician and D.J.; his personal and business contacts work in those industries. Weiss said he purposefully targets clients who are like-minded.

“My vertical niches emerged [from my personal interests]. That’s who I was and that’s where my referral network was. That’s who I knew. I’m always looking for people that understand [the creative] side of things - people that I can connect with.”

- Josh Weiss, Founder and CIO, L.A. Creative Technologies

- 4. Build a Virtual CIO Practice:** If you’re going to go through the trouble of developing the discipline and consultative expertise described in this chapter, you might consider turning it into a product offering that has a value alongside your core managed services products. Many MSPs are calling it “virtual CIO,” or vCIO. The concept is simple: you or your team performs the functions of a CIO on a fractional or on-demand basis for clients that can’t afford or don’t need a full-time IT executive. As a vCIO, you may help customers maintain their IT infrastructure, but also focus on business and IT alignment. This could include developing a technology roadmap, recommending new technologies, improving IT security and regulatory compliance, preparing for business continuity, disaster recovery, and more.



Turbocharging Your Growth

As an entrepreneur, it's not lost on you that the more successful your MSP becomes, the harder it is to maintain the pace of growth that fueled your ambition in earlier stages. If incremental gains become too small for your appetite, you can look at alternative ways to achieve bigger results - i.e., merger or acquisition.

Fortunately, all the strategies for driving organic growth reviewed in this chapter also can support inorganic growth. The operational discipline and the resulting increases in MRR and profitability set you up successfully whether you're looking to acquire a smaller competitor, merge with a peer or even sell your business.

Focus Technology Solutions' Lasonde has been on both sides of transactions. Before Focus purchased his company NSK Inc. in 2017, NSK acquired two smaller companies. One acquisition added competency in managed cloud computing, as well as a customer base in this newer practice area. The other was a smaller break-fix shop with underutilized resources.

"[The MSP we acquired] was doing maintenance on site [and] didn't have an RMM tool. He was just kind of inefficient, but he had a lot of good customers. So I bought his company so that I could transition his customers from the old model to the new model that I already had. We grew by a million dollars that year."

- Tim Lasonde, Senior Vice President, Managed Services, Focus Technology Solutions

Years later, Lasonde found himself facing a similar

decision: whether to continue growing his MSP to the next level on his own, or join a larger entity.

"We came across Focus, and they were a good fit because they needed to improve their managed services story," said Lasonde, explaining that Focus had a managed data center practice but no traditional managed IT services, such as the end user support, standardization and processes that NSK offered. What Focus did have was a lot of resources, professional services, salespeople and customers. "The two businesses complemented each other really, really well."

In preparation for the acquisition, NSK focused on improving its metrics, boosting margins and increasing EBITDA. To do this, the company trimmed vendor relationships, raised prices and reduced headcount - the last of which it was able to do by relying on automation and outsourcing from ConnectWise's RMM and NOC services, respectively.

Most of the MSPs on our panel are considering a transaction - as buyer or seller or both - as part of their growth or exit strategies.

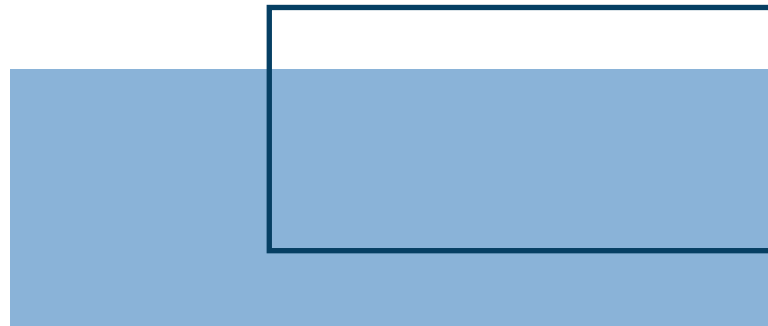
"Our goal is to get it to £1 million net income, and hopefully line up people to be interested in buying the business. If we can't be acquired, we will acquire... just to get the numbers up."

- Francis West, CEO, WESTTEK

In the end, success in the MSP business requires that you play the long game: focus on the fundamentals, execute your plays, track gains and losses, and adjust your strategy to meet the ever-changing conditions on the field. As with any solid team, it's the best way to earn loyal fans.

Thank you!

This concludes Secrets to Sustainable Growth - for MSPs, by MSPs. We hope you have found value in the advice shared by our MSP experts, and that their words inspire you at every stage of your growth plan. Who knows - maybe you'll be our next MSP success story. Drop us a line at **800.671.6898** and let us know how you're doing.



Meet Our Expert MSP Executives

Thanks to these MSP executives who made this eBook series possible by sharing their journeys and success strategies:

 <p>Whit Ehrich CEO – Hill Country Tech Guys</p>	 <p>Tim Lasonde Senior Vice President, Managed Services – Focus Technology Solutions</p>	 <p>James Ratcliff Managing Director – Ratcliff IT</p>	 <p>Josh Weiss Founder and CIO – L.A. Creative Technologies</p>	 <p>Francis West CEO – WESTTEK Solutions Ltd.</p>
<p>Ehrich is a serial entrepreneur, starting his first IT business in college. After the firm merged with another, it was spun up anew as Medical Computing Solutions, now dba HCTG.</p>  <p>www.hctechguys.com</p> <p>San Marcos, Texas United States Founded in 2006</p> <p>100 Customers 25 Employees</p> <p>Mission We strive to stay innovative and engaged in absolutely every client relationship. Our clients are more than customers; they're partners, and we take that to heart.</p> <p>Hill Country Tech Guys featured on ConnectWise webinar Spring Cleaning: Sweep the Competition with RMM</p>	<p>Lasonde founded and served as president of Boston-based MSP NSK Inc. for 17 years before it merged with Focus in 2017. Today, he leads a team of managed services pros.</p>  <p>www.focustsi.com</p> <p>Boston, Massachusetts United States Founded in 1997</p> <p>130 Customers 70 Employees</p> <p>Mission We provide our customers a new way to consume technology by designing and implementing innovative IT solutions with personalized service that results in positive business outcomes.</p> <p>Focus ranked No. 63 on the 2019 MSP 501</p>	<p>With nearly 20 years of experience, Ratcliff continues to help deliver major projects and IT consultancy services to his namesake firm's clients.</p>  <p>www.ratcliff.it</p> <p>London United Kingdom Founded in 2009</p> <p>45 Customers 10 Employees</p> <p>Mission Ratcliff IT exists to inspire confidence through technology and relationships that enable mutual success.</p> <p>Ratcliff IT: ConnectWise Success Story</p>	<p>Weiss married his love of the arts and entertainment with his expertise in IT to form LA Creative Tech. Over the last decade, he's pioneered a human-centered approach to digital infrastructure.</p>  <p>www.lacreativetech.com</p> <p>Los Angeles, California United States Founded in 2009</p> <p>15 Customers 5 Employees</p> <p>Mission By creating and applying strategic optimized tech solutions, we help our customers to be more efficient and profitable, giving them more time for personal and creative endeavors.</p> <p>Voyage LA profiles LA Creative Tech</p>	<p>West finds himself on the MSP track for a second time. His first go-around, FWCS, lasted 18 years. With a different engine, WESSTEK has been going strong for the past decade.</p>  <p>www.westtek.co.uk</p> <p>Hertfordshire United Kingdom Founded in 2010</p> <p>45 Customers 5 Employees</p> <p>Mission We want our clients' IT systems to work so well that they don't need to call us for support, only for advice and guidance as their business needs grow and evolve.</p> <p>Westtek named a Top 50 MSP in the U.K.</p>